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SOURCE Hsin-wen Jih-pao.

ADMINISTRATION COUNCIL ISSUES PROVISIONAL REGULATIONS
 ON REVALUATION OF PROPERTY OF CHINA'S PRIVATE ENTERPRISES

A set of measures governing the revaluation of properties and readjustment of capital for private enterprises was promulgated on 22 December 1950 by the Committee of Financial and Economic Affairs of the Government Administration Council. The full text follows:

A. GENERAL

Article 1

All private enterprises in China, whether they have revalued their properties and readjusted their capital or not, must, after making out the annual balance sheet on 31 December 1950, revalue the whole of their properties, including all assets and liabilities, and readjust their capital in accordance with these measures.

Article 2

Property to be revalued should be the actual property of the enterprise on 31 December 1950. All properties of the enterprise that have not hitherto been entered into the account books must be duly entered after valuation.

Article 3

In revaluation of properties, the local prices prevailing on 31 December 1950 should be taken as criteria for valuation.

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Article 4

In case the prices of 31 December 1950 cannot be taken as criteria for valuation because of abnormal fluctuation of certain commodity prices, a rational quotation for the purpose of valuation may be obtained from the local appraisal committees.

Article 5

Private enterprises that have branches at various localities must make separate revaluations in accordance with the different prices and procedures of such localities, and then include them in the total revaluation by the head office.

Article 6

Private enterprises whose head office is situated abroad, while the branches are in China, must make revaluations of that part of their properties that are in China, in accordance with these measures.

Article 7

The amount of capital that is readjusted in accordance with the revaluation should be based on yuan as the computing unit with exception of the Northeast, Inner Mongolia, and Sinkiang, where local currencies may be used as computing units.

Article 8

The time limit for such revaluation of properties and readjustment of capital may be prescribed by the various local industrial and commercial authorities, but, in general, the time limit should not be later than 30 June 1951.

Article 9

The revaluation of properties of private enterprises should be handled by local industry-commerce administrative organs together with municipal or county revaluation committees comprising local taxation organs, industrial and commercial federations, and invited relevant administrative bodies, as well as experienced accountants. Where circumstances warrant, local revaluation committees may set up guild branches or district branches. The organization of such branches should be prescribed by the various municipal or county committees.

Article 10

The functions of these municipal or county revaluation committees are prescribed as follows:

1. Explaining the aims and measures for revaluation of properties and readjustment of capital.
2. Accelerating and guiding the revaluation of properties among private enterprises.

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3. Appraising the criteria for revaluation of various trades, and the price lists agreed upon by trade guilds.
4. Carrying out a firm-to-firm and trade-to-trade checkup based on the self-declarations submitted by the various private enterprises.
5. Reappraising, upon discovery of unfair appraisals, or when disagreement regarding appraisals occur among private enterprises.
6. Undertaking any other work relevant to appraisal of revaluation of properties among private enterprises.

B. REVALUATION OF PROPERTIES

Article 11

The criteria for property revaluation are as follows:

1. Stocks

- a. The criteria for revaluation of merchandise in the buying and selling trade, and for raw materials of the manufacturing trade, should be the buying prices fixed by the appraisal committee for 31 December 1950.
- b. The criteria for revaluation of products and by-products of the manufacturing trade should be the selling prices fixed by the appraisal committee for 31 December 1950, or the prevailing prices minus the general gross-interest rate of the trade.
- c. The criteria for revaluation of remanufactured goods of the manufacturing trade should be the estimated prices of the products or by-products minus the cost of remanufacturing.

All other commodities, raw materials, products, remanufactured goods, and by-products that are not on the price lists agreed upon by the guild, or the stocks that have undergone depreciation do not sell quickly, may be estimated by the enterprises themselves and submitted with explanatory data to the appraisal committee for approval.

2. Consolidated Fixed Assets

a. Land

The value assessed by the local land bureau shall be taken as the criterion for revaluation. Where there is no land bureau or office in the locality, the assessment of land value shall be made by the government of the locality. However, if the market value is lower than the assessed value, the market value shall be taken as the criterion.

b. Buildings and Structures

A common basis for arriving at the cost of construction and rate of depreciation shall be determined by building specialists, building contractors, and persons well versed in building work, to be invited by the local building assessment committee. The management of the enterprise may ascertain, on the basis referred to above, the cost of rebuilding, and the rate of depreciation for individual items, according to the nature of the structure and construction, and the conditions under which the building has been used, and deduct from the assessed value the appropriate amount for depreciation for the number of years the building has been in use.

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In case the number of years the building has been in use cannot be ascertained, the management should assess the number of years that the building may still be used, and compute the present value on that basis.

For instance, if the common basis agreed on for average buildings of reinforced concrete is 50 years, the depreciation rate for a reinforced concrete building of a factory may only be assessed for 40 years because of more rapid deterioration due to the continuous vibration of the machinery.

If the building has been in use for 10 years, the depreciation for that number of years must be deducted accordingly.

If the number of years the building has been in use is uncertain, the number of years the building can continue to be used should be assessed. If this is assessed at 15 years, then deduct 15 years from the agreed life of 40 years. The remainder is 25 years, which is assumed to be the number of years the building has already been in use. Thus the value of the building may be ascertained by deducting depreciation for 25 years from the total assessed value.)

c. Machinery and Equipment, Transportation Facilities, Models, and Appliances

The common basis to be agreed on for the cost of construction and rate of depreciation should be determined by technical specialists, manufacturers and dealers, and experts, to be invited by the assessment committee.

The management of the enterprise should compute the present values of the machines, etc., on the basis referred to above, with due regard to their quality and the conditions under which they are used, and after ascertaining the cost of replacement and their respective depreciation rates.

In case the number of years in which they have been in use cannot be ascertained, then the present value of these items should be based on the estimated number of years that they can still be used, and computed accordingly.

d. Tools and Instruments

The present value should be computed by the management of the enterprises in accordance with the actual number of years in which the tools, etc., have been in use, on the basis of replacement value and depreciation assessed by the manufacturers, dealers, or experts. In case the number of years in which they have been used cannot be ascertained, then the present value should be computed on the basis of the number of years in which they can still be used.

e. Damaged Assets

For damaged assets, broken, ineffective, or unserviceable, the market price for similar material should be taken as basis for valuation.

3. Credits and Loan Assets

a. Debts, bills, and other loan assets due for collection should be entered into the books after revaluation in accordance with the actual amounts recoverable.

In cases of business failures, evasion, and compromise, which made it impossible to recover the debts, or in the event of failure to recover same after repeated efforts, they may be written off on the strength of certifying documents.

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Debts which are to be paid back in P.D.U. [Parity Units], or other real commodities should be revalued according to the rate of P.D.U., or prevailing prices of real commodities.

b. Advance payments on goods or bargain money -- Value should be revalued in accordance with the terms of contracts or quality and amount of the goods on which advance payment has been made, and the agreed prices of the guild passed by the Appraisal Committee.

In the event of prices being in foreign currencies, revaluation should be made according to foreign currency assets.

c. Gold, silver, foreign currencies, foreign exchange, and assets abroad -- Gold and silver should be revalued in accordance with the quotations announced by the People's Bank of China.

Revaluation of foreign currencies and foreign exchange, and interest due, according to original amounts and contractual provisions, should be made according to foreign exchange quotations announced by the Bank of China.

Assets abroad should be revalued in accordance with the prevailing prices at the localities involved, after which they should be reconverted, according to the foreign exchange rates announced by the Bank of China.

d. Stocks and investments -- Whenever current market quotations are available, they should be revalued in accordance with such quotations, and in the absence of such quotations, they should be revalued on the basis of actual conditions. Victory Bonds should be valued according to official prices, while bonds and treasury notes issued by the defunct puppet regime need not be revalued.

e. Deferred assets -- Revaluation is to be effected in accordance with the unexpired portion of the period of validity of the assets or the unused portion of stocks of goods brought in.

f. Liabilities -- In case loans were made on a gold, silver, foreign exchange, or foreign currency basis, and entered as such in the accounts, they should be revalued according to the foreign exchange quotations of the Bank of China at the localities concerned. The measures for repayment should be based on law.

In case loans were made in terms of P.D.U. or real commodities, they may be revalued in accordance with P.D.U. and commodity prices.

Liabilities incurred on advance payments on goods, advance payments on orders, and unpaid go-down warrants should be revalued in accordance with the prevailing prices of real commodities on the portion that has been prepaid.

Properties in areas awaiting liberation, or prewar deposits should not be revalued for the time being.

The criteria and method of revaluation for other sundry assets not specifically listed should be on the basis of similar assets referred to above, in accordance with their nature; and in case there are no prevailing market quotations, the price fixed by appraisal committees in nearby localities should be used as standard for revaluation.

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Article 12

Special assets -- Such intangible assets as trade marks, copyrights, patent rights, etc., should be limited to those legally acquired for a financial consideration. Revaluation should be made on the portion which continues to have validity, and in accordance with actual conditions.

Article 13

After revaluation of properties, if the assets are insufficient to cover liabilities, the private enterprises concerned should increase and refix the amount of their capital, or consult with creditors for settlement, or apply for permission to close.

Article 14

After revaluation, every private enterprise should prepare balance sheets of assets and liabilities, both before and after the revaluation, as well as the detailed table of value of the revalued properties.

The table referred to above should list names and quantities of the various properties, the book values, reassessed values, basis of revaluation, the revised valuations, and increment after revaluation. (The difference between the value after property revaluation and the book value is the increment value.)

Article 15

Responsible personnel of the private enterprises concerned, should hand in the above-mentioned balance sheets of assets and liabilities both before and after the revaluation and the detailed table of values of the revalued properties, together with necessary certificates of the revaluation, to the local appraisal committees for examination. Examination reports made by supervisors and auditors should be added in case the private enterprise concerned is operated as a limited company or corporation.

Article 16

Notice of property revaluation examination will be issued to the private enterprises concerned, by the appraisal committee after it has examined and approved the balance sheets, and the table of revalued properties. However, the private enterprises concerned, which submitted these tables and balance sheets to the appraisal committee, should be responsible for the authenticity of same.

C. READJUSTMENT OF CAPITAL

Article 17

The amount of the increment in value of the revalued properties should be clearly stated in the account books, for the purpose of readjusting the capital.

1. The amount of the increment in value of the revalued properties is allowed to offset any business losses; however, it should not be distributed as profit dividends, and it will also not be subjected to the industrial and commercial income tax.

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2. Income tax will be levied on the net profits of a private enterprise, as shown on its usual annual final balance sheet for 1950, in accordance with the provisional regulations governing the industrial and commercial tax, and relevant rulings.

Article 18

1. The increment in value after property revaluation should be applied to readjust the amount of capitalization by responsible persons of private enterprises on the basis of the laws and regulations, as well as in keeping with the paid-up capital in the past, and current business and financial conditions. The portion of increment that is not transferred to capital should be listed as reserve funds. A capital readjustment plan should then be prepared.

2. The responsible personnel of the private enterprises should submit the notice of property revaluation examination issued to the enterprises by the Appraisal Committee, balance sheets of assets and liabilities before and after the revaluation, detailed lists of the values of the revalued properties, together with the plan of capital readjustment to the capitalist (owner) or the entire body of shareholders (or partners) for approval, and thereby acquire formal authorization for the capital readjustment from the capitalists or the entire body of shareholders.

Article 19

After fulfilling the above-mentioned procedures, the responsible personnel of the private enterprises should apply for registration or reregistration through the government industrial and commercial organs with the following papers:

1. Notice of property revaluation examination.
2. Agreement or resolution authorizing the readjustment of capital.
3. Partnership contract or regulations of the company, and list of shareholders of the enterprises.

D. SUPPLEMENTARY PROVISIONS

Article 20

In implementing these regulations, municipal and district people's governments in various localities should devise their own concrete and detailed measures, in accordance with local conditions. Such measures should be reported for record to upper-level people's governments and to the Central Bureau of Private Enterprises, Committee of Financial and Economic Affairs, Government Administration Council.

Article 21

With the approval of the local appraisal committees, shops in small cities and villages or small private enterprises which are unable to keep proper account books may be exempted from the revaluation of properties.

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Article 22

With the approval of the finance and economic committee of the administrative areas, certain cities may postpone carrying out the work of revaluation of properties in case of special difficulties. However, such cases should be reported for record to the Committee of Financial and Economic Affairs, Government Administration Council.

Article 23

The present regulations are also valid for revaluation of properties and readjustment of capital in public and private joint-operated enterprises.

Article 24

The present regulations are promulgated for enforcement by the Committee of Financial and Economic Affairs, Government Administration Council.

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